

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
INDUSTRIAL DEVELOPMENT REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY			
Applicant:	Solar Atmospheres of California, Inc. and Ontario Technical Associates, LLC. (Co-Borrowers)	Amount Requested:	\$7,350,000
Applicant Description:	Solar Atmospheres of California, Inc. and Ontario Technical Associates, LLC are processors of commercial heat-treated metal parts for the medical, aerospace, metals, instruments and various other industries.	Date of Board Meeting:	April 27, 2010
		Resolution Number:	10-15
		Type of Bonds:	New Issue
Project Site:	8606 Live Oak Avenue, Fontana, CA 92335	Prepared by: Derrick Moore	
Project Description:	The project (Project) involves acquiring a 21,750 square foot building on a 2.49 acre parcel and the acquisition and installation of new equipment including multiple vacuum furnaces, ranging in size from two to 24 feet in length.		
Uses of Bond Proceeds:	Bond proceeds will be used to pay the cost of the Project, including issuance costs.		
Public Benefits:	<ul style="list-style-type: none">• An estimated 11 full time jobs are expected to be created within two years of Project completion, in an area with an unemployment rate that exceeds the State rate by 118%.• Project will involve the reuse of vacant land with developed infrastructure that is located near a public transit corridor.		

Financing Structure:

Type of Issue:	Privately-placed loan.
Tax Status:	Tax-exempt Industrial Development Revenue Bonds (Series A) Taxable Bonds (Series B)
Term:	Initial 5 year term, amortized over 20 years, with option to extend up to 20 years.
Security:	Collateral provided by the Borrower.
Credit Rating:	None

Est. Sources of Funds:		Est. Uses of Funds:	
Series A Bonds Par Amount	\$6,750,000	Acquisition of Land and Building	\$2,775,000
Series B Bonds Par Amount	600,000	Fees related to Sale	50,000
Equity Contribution	936,000	Acquisition/Installation of New Equipment	5,361,000
		Costs of Issuance	100,000
TOTAL SOURCES	\$8,286,000	TOTAL USES	\$8,286,000

Financing Team:

Bond Counsel:	Kutak Rock, LLP
Private Placement Provider:	Univest National Bank and Trust Company
Financial Advisor:	Pritchard, Bieler, Gruver & Willison, P.C.

Staff Recommendation:

Staff recommends approval of Resolution 10-15 for an amount not to exceed \$7,350,000 for Solar Atmospheres of California, Inc. and Ontario Technical Associates, LLC.

APPLICANT BACKGROUND AND HISTORY

Solar Atmospheres of California, Inc. (Solar) and Ontario Technical Associates, LLC (together, Co-Borrowers), are processors of commercial heat-treated metal parts for the medical, aerospace, automotive, metals, instruments and various other industries. The processing of such metals includes tempering, brazing, degassing, stress relieving and hydrating. Solar is an affiliate of Solar Atmospheres, Inc. which was incorporated in Pennsylvania on November 2, 1984. Solar Atmospheres, Inc. operates four heat treatment plant sites in Pennsylvania. Major customers of these affiliates include Honeywell International, Siemens Power Generation Inc., Accellent Endoscopy, Global Titanium and Niotan, Inc.

Solar and Ontario Technical Associates, LLC were incorporated in California on January 4, 2007 and January 15, 2009, respectively.

PROJECT DESCRIPTION

Bond proceeds will be used to acquire a 21,750 square foot building on 2.49 acres located at 8606 Live Oak Avenue in Fontana. The subject parcel is located in an area of mixed residential and industrial uses. Bond proceeds also will be used to acquire and install new equipment including multiple vacuum furnaces. The furnaces will range in size from 24 inch box furnaces to one that is 24 feet in length, making it the largest vacuum furnace west of Pittsburgh, Pennsylvania. On March 23, 2010, the San Bernardino County Board of Supervisors approved a General Plan Amendment, Conditional Use Permit and Tentative Parcel Map for the property, changing the zoning from Multiple Residential to Community Industrial.

Equipment purchases are anticipated to begin in April 2010 and will continue through August or September 2010. Escrow on the acquisition of the facility is expected to close in August or September 2010.

FINANCING STRUCTURE

The Project cost will total \$8,286,000, of which \$6,750,000 will be financed by a tax-exempt loan (Series A Loan), \$600,000 by a taxable loan (Series B Loan) (collectively, the Series A Loan and the Series B Loan are the Loan), and \$936,000 from Solar's equity. The proceeds will be loaned to the Co-Borrowers pursuant to a master loan agreement (Master Loan Agreement) among the I-Bank, Univest National Bank and Trust Company (Univest), and the Co-Borrowers. The Loan will be secured a first deed of trust on the Project real property and a mortgage lien on property located in Souderton Pennsylvania, along with a security interest in Project equipment. The initial Loan term will be 5 years with principal and interest amortized over 20 years, with an option for extension or prepayment at the end of the initial 5 year term. The Series A Loan will have a fixed rate equal to 65% of the Univest announced Prime Rate with a floor of 4% up to the 2015 maturity date, if the Series A loan is extended, the rate will reset every fifth year thereafter during the 20 year term. The Series B Loan will have a fixed rate equal to 6.25% per annum. The obligations of the Co-Borrowers will be

secured by a guaranty provided by Solar Atmospheres, Inc., the parent company of Solar Atmospheres of California, Inc., and other related entities.

The I-Bank's principal and interest due under the Loan shall be paid solely from the revenues to be received from the Co-Borrowers' payment of their obligations under the loan agreement. In no event shall the loan be deemed to constitute a debt or liability or obligation of the State or any political subdivision thereof except the I-Bank, or a pledge of the faith and credit or taxing power of the State or any political subdivision thereof, but shall be a special obligation of the I-Bank payable from loan repayments paid by the Co-Borrowers to the I-Bank.

In accordance with the I-Bank "Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities" (Policies), the I-Bank's general policy is to issue obligations bearing certain minimum ratings. The Policies provide that the Board may waive the requirement for a credit rating where the applicant will use a private placement or limited underwriting offering structure subject to the following additional conditions:

1. **Sophisticated Investor.** The investor(s) will be required to sign a "sophisticated investor" letter acceptable to the Infrastructure Bank. Each investor must be a qualified institutional buyer within the meaning of S.E.C. Rule 144A, or an equivalent sophisticated investor with a demonstrated understanding of the risks associated with the municipal market, acceptable to the Infrastructure Bank.
2. **Resale Limitations.** Depending on the circumstances of the proposed sale, the Infrastructure Bank may require conditions for the resale of the Bonds after initial issuance.
3. **Minimum Denomination.** The Infrastructure Bank will require a minimum bond denomination of at least \$100,000 on private placements or limited underwritten offerings; denominations may be higher depending on the circumstances of the sale.

The Loan will be an obligation held only by Univest National Bank and Trust Company, a Qualified Institutional Buyer (QIB or Investor) as defined in Section 144(A) promulgated under the Securities Act of 1933, as amended, and thus constitutes a private placement of the I-Bank's obligation. This structure requires the Board to waive the Policies' credit rating requirement and, unless also waived, impose certain conditions on the financing. In order to meet these requirements, the resolution presented to the Board is conditioned upon (a) the Investor providing a sophisticated investor letter (Letter) at closing certifying, among other things, that: (i) it is a QIB and (ii) it has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Loan and that it is able to bear the economic risks of such investment; and (b) provisions in the loan agreement that prohibit the sale of the Investor's interest in the loan except to another QIB or an "accredited investor" within the meaning of Rule 501 promulgated under the Securities Act. The terms of the loan agreement, to which the Investor is a party, will reflect that there is no liability on the part of the I-Bank or the State to make any

payment on the loan other than the I-Bank's limited obligation to make payments from revenues received from the Co-Borrowers.

CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE SCORING/PUBLIC BENEFITS

The Project received private activity bond allocation from California Industrial Development Financing Advisory Commission (CIDFAC) on March 24, 2010, receiving 33 points based on CIDFAC's scoring criteria summarized below:

SCORING

EVALUATION SCORING		
Point Criteria	Maximum Points Allowed	Points Scored
<u>Community Economic Need:</u>	10	0
1. Unemployment Rate of Project Area		
2. Poverty Rate of Project Area	5	5
3. Special Designation Area	5	0
4. Median Family Income of Project Area	5	5
Job Creation Ratio	25	0
Welfare to Work Program Participation	5	0
Health Care Benefits	5	5
Average Hourly Wage	5	5
Land Use	5	5
Transit Corridor	5	5
Energy Efficiency	5	0
Leveraging	5	3
Total Points	85	33

DESCRIPTION OF PUBLIC BENEFITS

- Community Economic need:**
 The Project is located in Fontana, with a poverty rate of 130.9% of the state average and a median family income that is 75.4% of the statewide average.
- Total number of new jobs to be created and jobs to be retained within two years of project completion:**
 Solar anticipates hiring 11 new full time employees within two years of Project completion.
- Land Use and Public Transit Corridor:**
 The Project involves reuse of vacant land with developed infrastructure. The Project site is also located within a quarter mile of public transit bus route.

- **Average Hourly wage of new jobs to be created:**
Solar's 2008 average hourly wage was \$24.40, 195.8% higher than the 2008 average production wage of \$12.46 within the Riverside/San Bernardino/Ontario metropolitan area.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Describe:
TEFRA	
Date of TEFRA:	02/18/2010 and 02/22/2010
Publications:	<i>The Sacramento Bee</i> <i>The San Bernardino Sun</i>
Any Oral/Written Comments:	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Legal Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Project meets Public Interest Criteria (per G.C. § 63046 and 63047(d)) <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	1. The Project is in the State of California. 2. Co-Borrowers are capable of meeting their obligations incurred under the proposed Master Loan Agreement, and, in particular as to the repayment obligations which secure the Loan, based upon the Investors commitment to make the Loan. Payments to be made by Co-Borrowers to the I-Bank under the proposed Master Loan Agreement are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments on the Loan. 3. The proposed financing is appropriate for the Project. 4. The Project is consistent with any existing local or regional comprehensive plans.
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES Certificate No.: C-09-0001 Amended <input type="checkbox"/> N/A Date: January 25, 2010

RECOMMENDATION

Staff recommends approval of Resolution 10-15 for an amount not to exceed \$7,350,000 for Solar Atmospheres of California, Inc. and Ontario Technical Associates, LLC.

APPENDIX A – PICTURES



Aerial view of Project Site located at 8606 Live Oak Avenue, Fontana, CA.



Current Street View of Project Site.